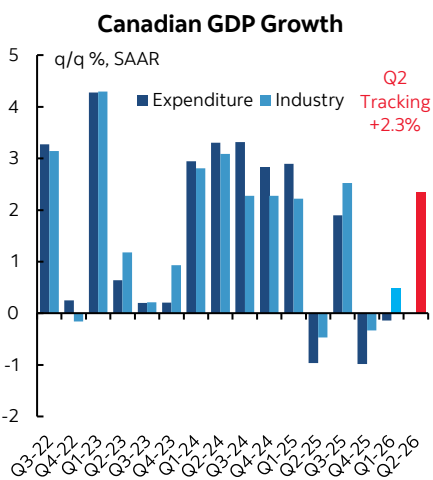


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Chart 1



Canadian GDP: 'R' is for 'Rebound'!

- Canada's economy is rebounding rather nicely in Q2
- April GDP beat estimates...
- ...and growth continued in May
- The BoC may argue Q1 miss and Q2 beat leave it with little overall H1 surprise...
- ...after we get higher inflation expectations from BoC surveys

Canadian GDP, m/m %, SA, April:

Actual: 0.55

Scotia: 0.4

Consensus: 0.4

Prior: -0.1

May 'flash' GDP guidance: +0.1

Canada's economy never entered any credible definition of recession, but growth is rebounding nicely in the second quarter. This offers a nice set-up for the Bank of Canada's wholesale forecast reset in the July 15th MPR and following next week's BoC surveys that are likely to show higher inflation expectations.

Q2 GDP is tracking a gain of 2.3% q/q SAAR and is very close to rounding up to 2.4%. That would be the strongest growth since 2025Q3 (chart 1) using monthly production-side GDP accounts.

GDP grew by 0.55% m/m SA in April which was higher than the preliminary flash estimate of 0.4% that Statcan offered about a month ago. It's the strongest monthly growth rate since July of last year. Spring has sprung and some of the categories of growth may reflect exit from hibernation following more adverse than normal weather over the winter.

GDP for the month of May was tentatively guided to be up by another 0.1% m/m SA which met my expectations for continued growth even with the higher than expected starting point in April.

Chart 2 shows that there was high breadth to April GDP. Growth was led by mining and oil/gas extraction, but most sectors were up. Chart 3 shows weighted contributions to overall GDP growth by sector.

Chart 2

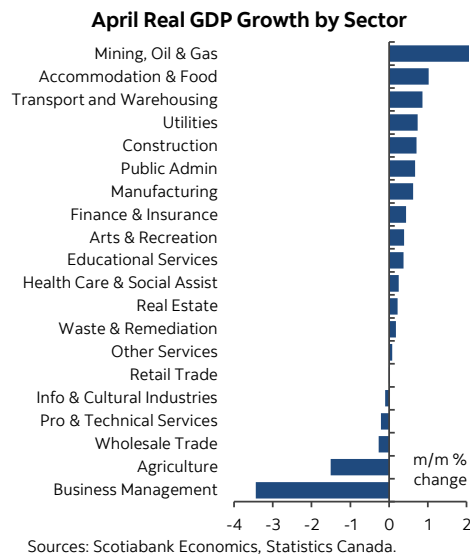
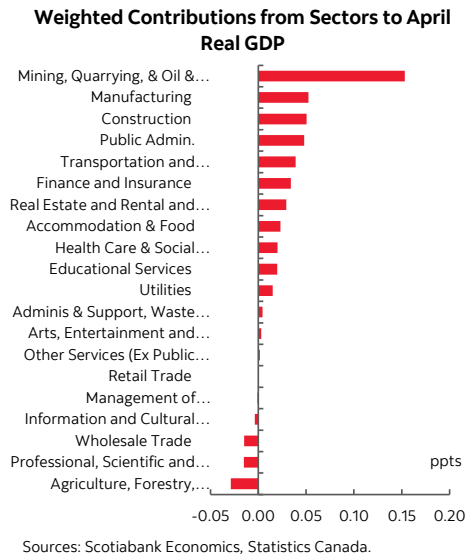


Chart 3

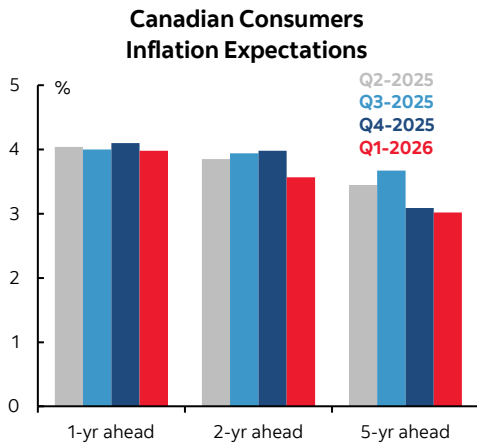


As for May GDP we only get verbal guidance with the prelim estimate as Statcan noted this: "Increases in finance and insurance and real estate and rental and leasing were partially offset by decreases in wholesale trade and agriculture, forestry, fishing and hunting."

This set of readings and Q2 tracking offers a nice set up for the July MPR. April's MPR was negatively surprised by Q1 GDP (-0.1% q/q SAAR, BoC 1.5%) but that may be revised up on trade figures, while they had 1.5% q/q SAAR for Q2 GDP and now we're tracking almost a percentage point higher. A miss here and a beat there will be argued to be roughly similar to what the BoC anticipated in April for H1 overall since a) the figures largely offset one another, and b) the BoC almost always says everything is matching their expectations anyway.

A wholesale refresh of their forecasts will be coming after we get next week's BoC surveys that are likely to show further increases in inflation expectations. Chart 4 shows where consumer inflation expectations stood in Q1 with all time frames at or above the 3% upper end of the BoC's 1-3% inflation target range. Chart 5 shows businesses' inflation expectations using a few measures. The BoC's BOS survey measure of 2-year ahead inflation expectations has some catching up to do in relation to both the BoC's slightly fresher Business Leaders' Pulse measure of inflation expectations. The CFIB's small business measure of inflation expectations is the freshest of all (to June) and tends to track beneath the BoC's measures which implies they will rise more than the CFIB measure.

Chart 4



Sources: Scotiabank Economics, Bank of Canada.

Chart 5



Sources: Scotiabank Economics, CFIB, BoC.

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